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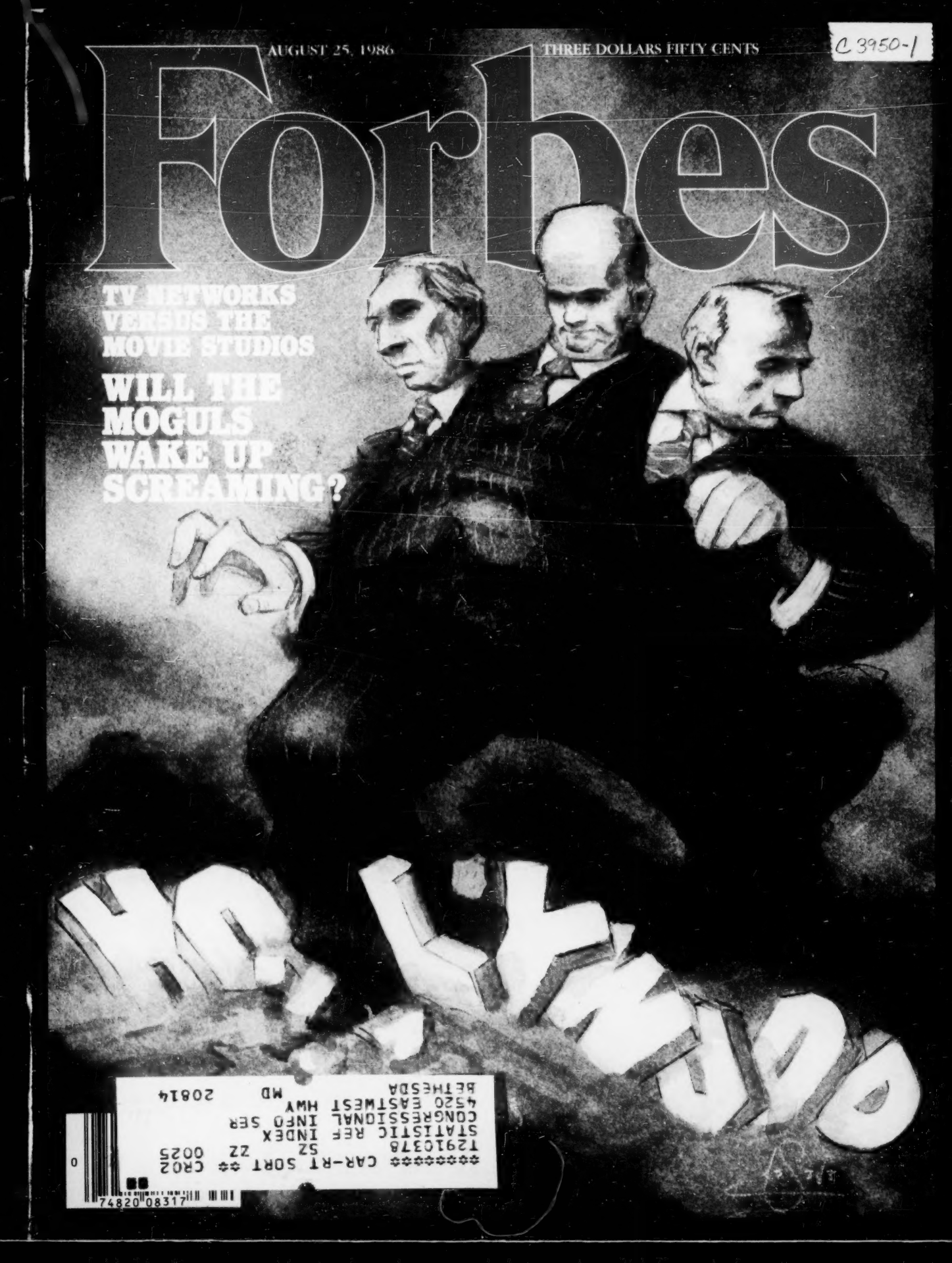
Forbes

TV NETWORKS VERSUS THE MOVIE STUDIOS

WILL THE MOGULS WAKE UP SCREAMING?



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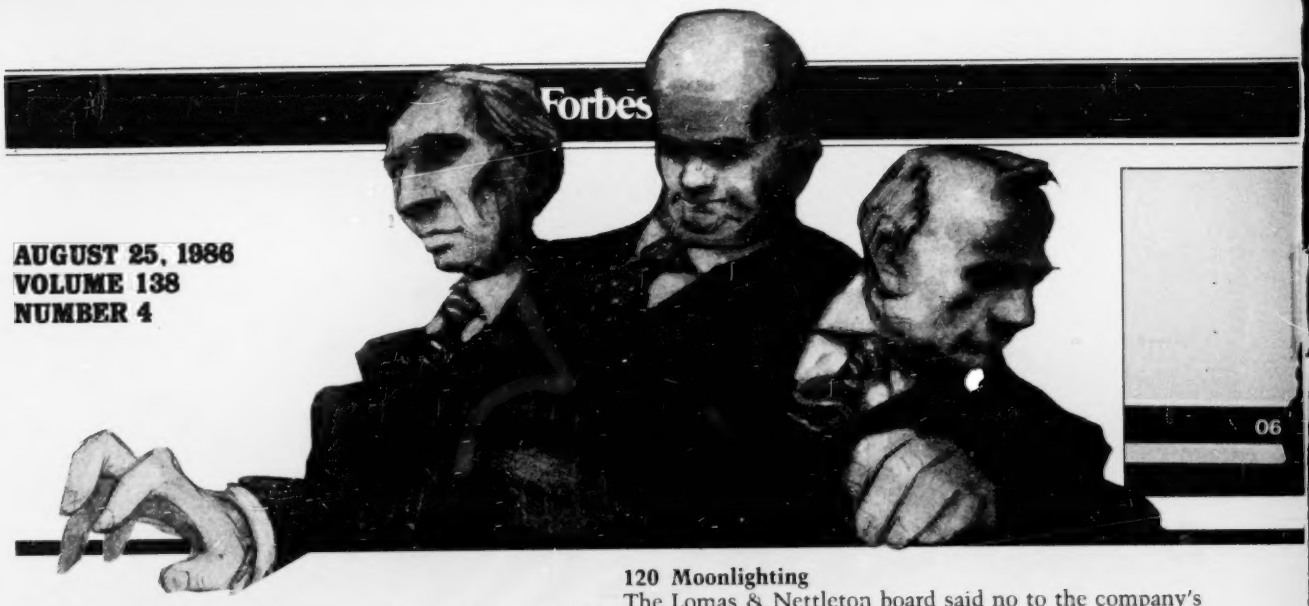

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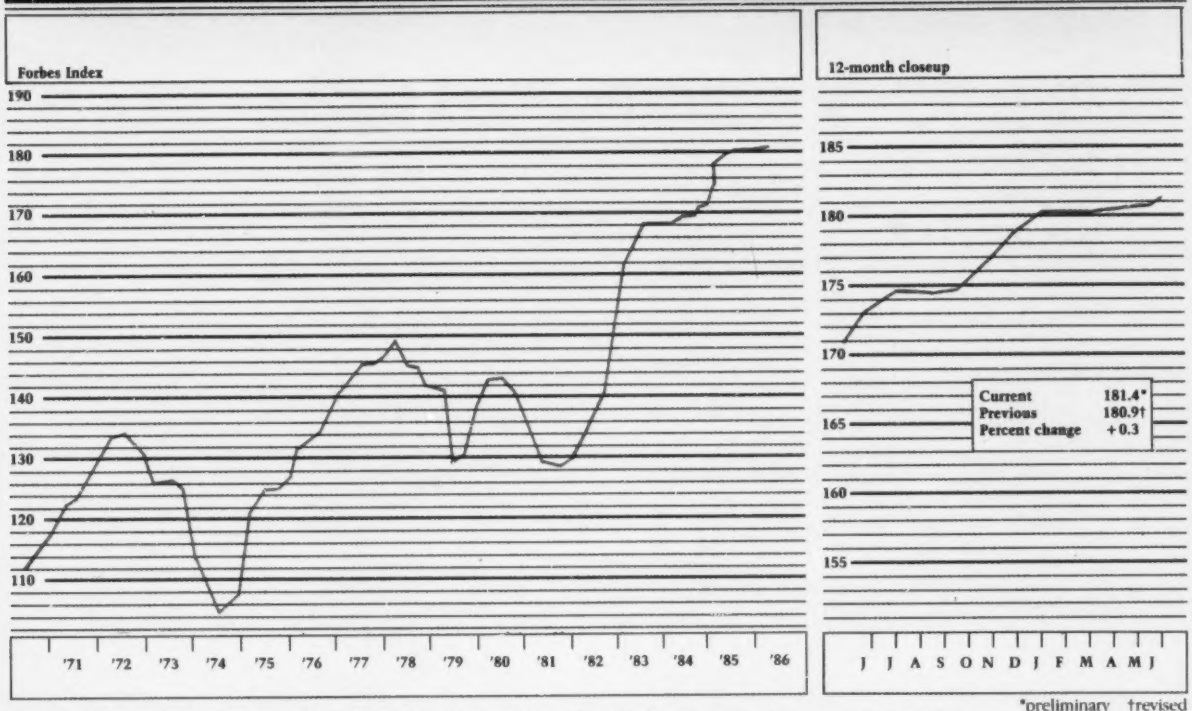
The Forbes Index



*preliminary †revised

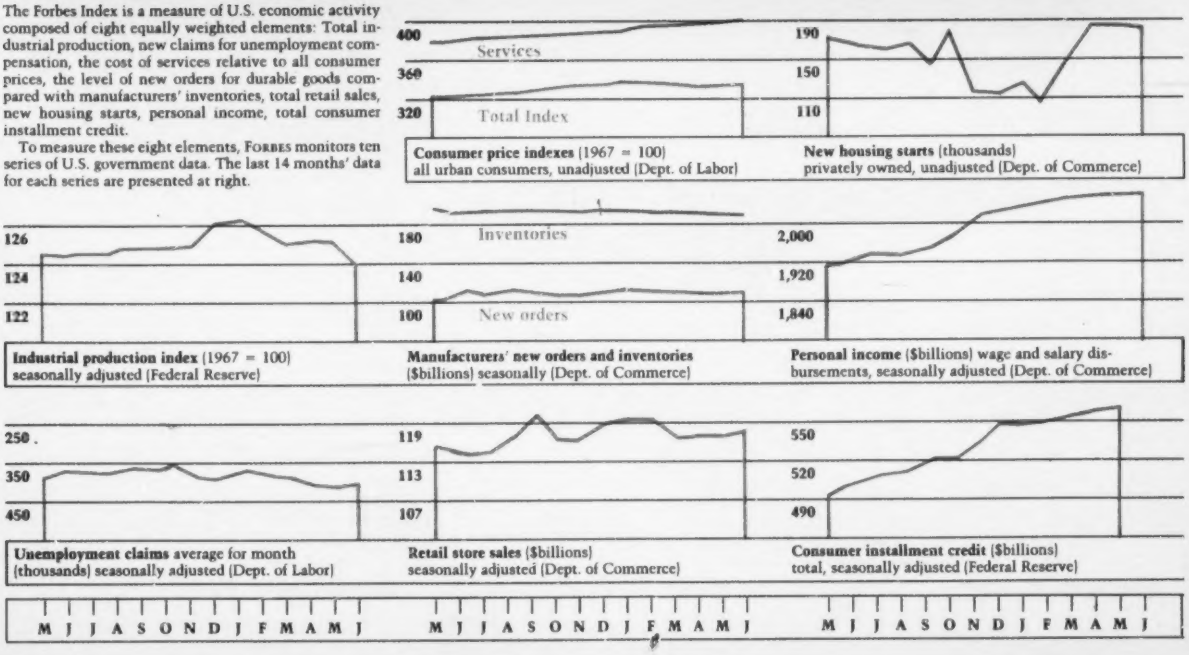
Hello, old friend. Manufacturing, which has been ailing of late, may soon pick up some steam. Why? Despite a substantial drop-off in new defense orders, orders for durable goods increased 0.1% during June, while inventories were reduced by 0.2%. The result was a 1% rise in the ratio of new orders to inventories, the first increase since February. This helped drive up the Forbes Index 0.3% during the latest reporting period.

Also forcing up the Index were the Consumer Price Index and personal income, which increased by 0.5% and 0.3%, respectively, from May to June. Since January, however, consumers have fared much better as personal income has increased by 1.8%, while the CPI—depressed by low energy prices—has fallen by 0.2%.

The Forbes Index Components

The Forbes Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, total consumer installment credit.

To measure these eight elements, FORBES monitors ten series of U.S. government data. The last 14 months' data for each series are presented at right.


400
360
320
Services
Total Index
190
150
110
Consumer price indexes (1967 = 100) all urban consumers, unadjusted (Dept. of Labor)
New housing starts (thousands) privately owned, unadjusted (Dept. of Commerce)
126
124
122
180
140
100
Inventories
New orders
2,000
1,920
1,840
Industrial production index (1967 = 100) seasonally adjusted (Federal Reserve)
Manufacturers' new orders and inventories ($billions) seasonally (Dept. of Commerce)
Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept. of Commerce)
250
350
450
119
113
107
550
520
490
Unemployment claims average for month (thousands) seasonally adjusted (Dept. of Labor)
Retail store sales ($billions) seasonally adjusted (Dept. of Commerce)
Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)
M J J A S O N D J F M A M J
M J J A S O N D J F M A M J
M J J A S O N D J F M A M J

Hollywood's plump feather bed

Here is the clearly corpulent catalog of union costs for a typical but conservatively staffed TV episode or movie of the week compared with the same production using nonunion help. Here we are talking about a 5-day, 55-hour filming week, and the list covers only the basic technical crew. We've left out the so-called core production team—the director, cinematographer, art director and production manager—as a sop to those who argue that you must pay top dollar to get top talent.

Remember that the term featherbedding refers to more than just an inflated pay scale. More commonly it is used to indicate overstaffing, and we certainly have that here as well (e.g., there are three sound men on a union set vs. two on the nonunion set). Note, too, that about 35% of the union compensation is in fringe benefits.

This is not, however, an actual budget for a real show. It is an example provided by Cine Enterprises, a Santa Monica-based international production consultant. Cine has developed a healthy business showing Hollywood's newly budget-conscious film companies how to become low-cost producers. The pitch? Substantial savings can be gained by going nonunion and selecting filming locations carefully.

Further production savings can be realized by using small, cost-efficient "second units" to film scenes that do not require the full retinue of technicians and actors. Transferring the film to videotape before editing brings substantial savings, too, because editing videotape is much faster and simpler, and so more cost-effective, than editing film.

The big studios usually blame the unions alone for their fat cost structures. But recall, too, that the studios routinely add as much as 30% in equipment rental and other "fees" to the production price tag. So when you hear that a single episode of *Miami Vice* costs $1.4 million to make, only about a million of that is real cost. The rest is funny money.—**P.B. and S.F.**

Job category	Union rate	Personnel	Nonunion rate	Personnel
Assistant directors	**$5,617**	2	**$3,186**	2
Camera crew	**8,694**	4	**4,897**	3
Clerical & craft service	**5,915**	5	**4,661**	5
Costumes	**5,520**	3	**4,542**	3
Day players	**10,240**	10	**2,360**	10
Drivers	**30,340**	22	**19,824**	16
Electrical & lighting	**13,872**	5	**6,726**	4
Extras	**10,360**	50	**2,950**	50
First aid	**1,286**	1	**885**	1
Grips	**7,241**	4	**6,608**	4
Hair	**3,573**	2	**2,950**	2
Location manager	**1,770**	1	**1,770**	1
Makeup	**5,641**	3	**4,956**	3
Props	**5,517**	3	**4,130**	3
Script supervisor	**2,070**	1	**1,652**	1
Sets	**9,140**	6	**5,240**	4
Sound	**7,155**	3	**3,540**	2
Special effects	**5,520**	2	**4,720**	2
Stunts & stand-ins	**11,120**	5	**3,3[illegible]**	5
Total	**$150,591**	132	**$88,90[illegible]**	12[illegible]

took strikes to do it, as it did at many of its newspapers.

Imagine yourself a fly on the wall in a $960-a-night suite at New York's Ritz Carlton—25th floor, view of the park. A bevy of six-figure studio executives, producers and agents sit about, for two weeks, dressed in deluxe West Coast casual, wringing their hands, contemplating a multicolored mosaic of hypothetical prime-time schedules tacked to a bulletin board. Welcome to Pilot Pitch Week, where tempers are short and rumor is king. It is the last step in a nerve-racking, $150 million sales and selection process that brings the next season of *Dallas* or *Miami Vice* into your home.

Why are these men so nervous? "In a strange way, we're all living in the past," says David Gerber, who has been in the business since the Sixties, and is the president of MGM/United Artists Television. For Hollywood, it was a glorious past. From 1971 to 1983 ad revenues climbed at a steady 14% rate. So effective was TV as an advertising medium that the advertisers could always be expected to pick up double-digit increases in production cost. As icing on the cake, more and more independent TV stations came on the air and began clamoring for rerun rights. The number of independents doubled between 1980 and 1985. Syndication demand was good, supply was limited.

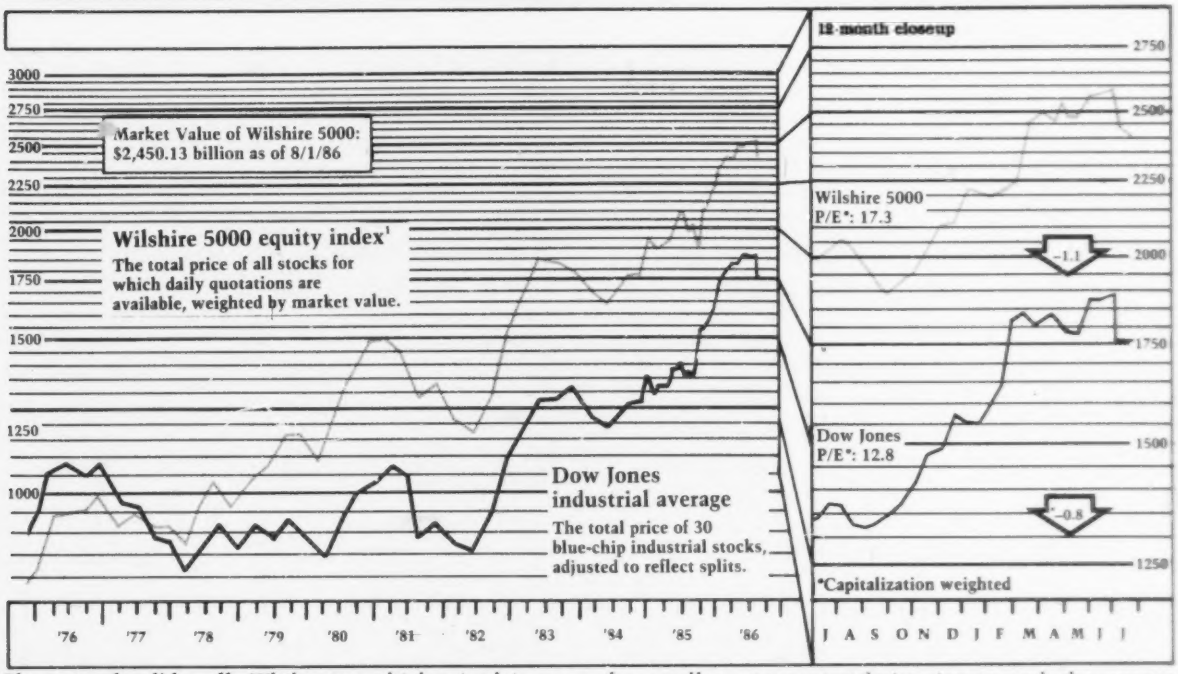
But in 1983 things began to change. Union wages and Hollywood's production budgets were still growing at double-digit rates, but advertising revenue growth dropped to single digits. The syndication market faltered. The confrontation between Hollywood and the networks was on.

Traditionally, Hollywood had been content with fees from the networks on hour and half-hour series that nearly covered production costs because there were such hefty profits in syndicating the reruns. But now the networks are refusing even to come close to covering producing costs, leaving the studios to absorb mounting investments, sometimes as much as $500,000 per episode. More than that, fewer shows are now on the air long enough to qualify for syndication. And another problem: Syndicating hour-long shows is no sure thing anymore—especially dramatic series with little kiddie appeal, because children are the prime audience in the early evening hours when independent stations get their highest ratings.

Take the ABC, hour-long action-adventure series *MacGyver*, slotted to run next year in the choice spot just before ABC's *Monday Night Football*.

The Forbes/Wilshire 5000 Review

Edited by Steve Kichen


Market Value of Wilshire 5000: $2,450.13 billion as of 8/1/86
Wilshire 5000 equity index[1]
The total price of all stocks for which daily quotations are available, weighted by market value.
Dow Jones industrial average
The total price of 30 blue-chip industrial stocks, adjusted to reflect splits.
3000
2750
2500
2250
2000
1750
1500
1250
1000
'76 '77 '78 '79 '80 '81 '82 '83 '84 '85 '86
12-month closeup
Wilshire 5000 P/E*: 17.3
Dow Jones P/E*: 12.8
-1.1
-0.8
*Capitalization weighted
J A S O N D J F M A M J J

Cheap stocks did well. While many high-priced issues have lately been pummeled down, low-P/E investors have been rewarded handsomely by Wall Street. Over the last 52 weeks, for example, low-P/E stocks (under 5) have gone up 31%, compared with only 15% for the high-P/E (over 25) issues.

Investors, blaming slumping bond prices and a weak economy, continue to push stock prices down. Hardest hit over both the latest two- and four-week periods have been the smaller, more speculative issues and the energy stocks. The Nasdaq has fallen 2.7% during the last ten trading days and 9.9% over the last four weeks, while the Amex has fallen 2.5% and 8.3% during the same periods.

Meanwhile, the overall market, as measured by the Wilshire index, went down 1.1% during the latest two-week period and currently sells at a price/earnings multiple of 17.3, its cheapest multiple since late May, when it was selling at 17.4 times earnings.

Closeup On The Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500[2]	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	–7.1	–6.4	–7.2	–6.5	–8.3	–9.9
in last 52 weeks	21.6	19.1	30.3	22.0	11.1	21.7

Stock performance based on six key investor yardsticks

Percent change	Company size		Volatility[3]		P/E multiple		Dividend yield		Growth profile[4]		Share price	
	large	small	high	low	over 25	under 5	over 7.5%	none	high	low	over $40	under $4
in last 4 weeks	–6.8	–6.1	–7.8	–1.2	–10.3	–6.4	–3.3	–9.5	–8.5	–2.7	–6.2	–6.7
in last 52 weeks	23.1	34.8	50.3	31.1	14.7	31.4	23.7	33.6	45.9	36.3	36.5	19.5

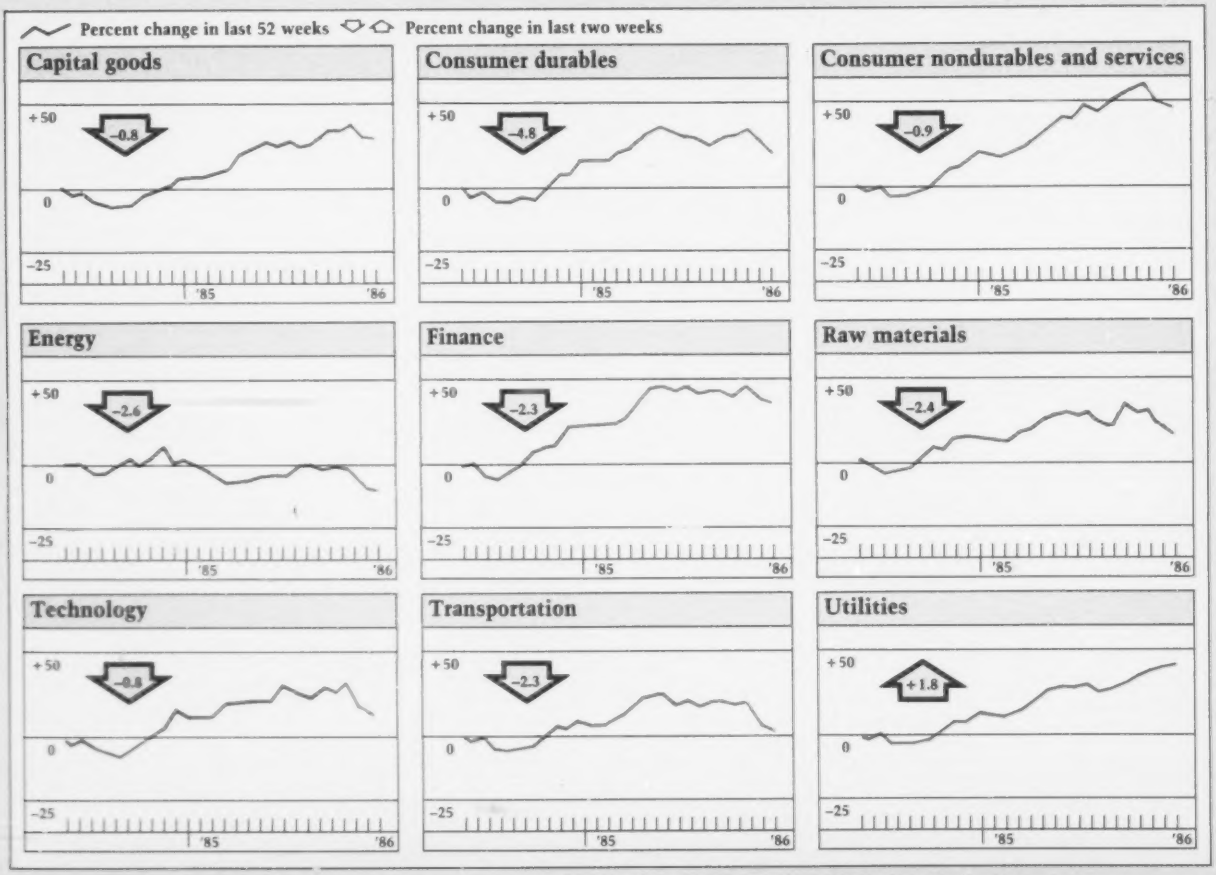
[1]Wilshire index reflects price performance. It differs slightly from market value of outstanding stocks because of retirements of equity since index was created.
[2]Based on sales.
[3]A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable.
[4]A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

Note: All data for periods ending 8/1/86. Prepared by Wilshire Associates, Santa Monica, Calif.

Where The Action Is

Looking for yield. Over the latest two- and four-week periods, while the other eight Wilshire sectors have suffered declines, the utilities sector has posted gains of 1.8% and 2.4%, respectively. This is mainly because falling interest rates continue to make high-yield issues attractive. Leading the surge is American Water Works, the nation's largest privately owned water utility, which shot up 11% during the last ten trading days. The firm earned 68 cents per share during 1986's first quarter, vs. 52 cents for the same period last year. Analysts expect profits to be up about 14% for the year.

Over the past year, consumer nondurables have performed best, up 42%. The straggler has been energy, which is down 9%.



What The Analysts Think

Earnings estimates were slashed for all nine Wilshire sectors over the most recent two-week period. Hardest hit were transportation, down 4%, and technology, down 2.3%. Consumer durables, utilities, finance and energy currently sell at ratios to estimated 1986 earnings lower than the 12.6 ratio for the Forbes Sales 500.

Forecasting the Forbes 500

Performance period	Average earnings per share	P/E
latest 12 months	$2.74	15.8
1986 estimates	3.44	12.6
1987 estimates	4.02	10.8

Rank based on change in estimate	Sector	Estimated 1986 EPS	Estimated 1986 P/E	% change in 1986 estimate in 2 weeks	% change in 1986 estimate in 4 weeks
1	Utilities	$3.31	10.5	-0.18%	-0.26%
2	Raw materials	1.85	15.3	-0.21	-1.97
3	Consumer nondurables	2.17	16.7	-0.23	-0.62
4	Energy	2.20	12.3	-0.78	-1.11
5	Consumer durables	3.69	10.1	-0.80	-1.91
6	Finance	3.31	10.7	-1.03	-1.92
7	Capital goods	2.56	14.2	-1.07	-1.93
8	Technology	2.51	14.2	-2.29	-3.21
9	Transportation	1.73	14.9	-3.97	-10.04

Earnings projections are capitalization-weighted consensus estimates from over 2,000 security analysts. Data are compiled and updated continuously by the Institutional Brokers Estimate System (IBES), a service of Lynch, Jones & Ryan, a New York-based brokerage firm.

Note: All data for periods ending 8/1/86. Prepared by Wilshire Associates, Santa Monica, Calif., IBES, a service of Lynch, Jones & Ryan, New York.

The Forbes/TUCS Institutional Portfolio Report

Edited by Steve Kichen

By no means are institutional investors always right. In the second quarter they underperformed the averages. The 5.1% median total return of institutional equity portfolios lagged the 5.8% return for the Wilshire index of 5,800 common stocks. In the first quarter pension fund stock managers did somewhat better, with a median return of 15.6%, vs. 14.4% for the market.

The data come from the Trust Universe Comparison Service (TUCS) maintained by Santa Monica, Calif.-based Wilshire Associates. Wilshire gathers reports on about a fourth of the country's $1.6 trillion in pension assets.

In spite of the sharp drop in interest rates since 1984, stocks have outperformed bonds so far this decade. Wilshire reports that the five-year annualized return for equity is 19.3%, for fixed income, 16.7%. Cash—that is, liquid investments like bank CDs—returned only 11%. Over the last quarter and last 12 months, stocks remained on top *(see "Segment performance" box at right).*

The "shift in institutional holdings" column shows where the pros are moving their money. To compute these numbers, TUCS backs out the effect of price changes. If, for example, stocks are up 5% and a manager's stock investments climbed from $100 million to $105 million, that manager would be reported as putting no new money into stocks. Note the 9.6% shift out of investments overall in the past year. This shows that the bull market has enabled pension sponsors to draw cash out of their overfunded plans. However, the withdrawals from pension funds have been a mere 0.1% since Mar. 31. "The net drain of pension assets may be slowing down," says Dale Stevens, a Wilshire vice president.

The table below shows that value managers—those who selected stocks by fundamental criteria such as book value and cash flow—posted a below-market total return of 3.3% for the quarter. Managers who bought small, emerging growth companies did the best, with a 7% gain.

At the end of June the average institutional equity portfolio was selling at 19.1 times latest 12-month earnings, vs. 18.7 for the market. TUCS data show that stocks whose 1986 average P/E was between 15 and 20 posted the best one-year gain, a total return of 36.6%, vs. 35.3% for the Wilshire index. Stocks with P/Es over 20 fared the poorest, with a total return of 32.2%. Again, low-P/E investment strategy was vindicated, though barely.

How different managers performed

Manager style	Total return: recent quarter	12 months	24 months[3]
Diversified	5.1%	33.2%	31.4%
Growth	5.5	37.1	32.6
Growth—emerging	7.0	34.0	30.7
Market timer	4.7	30.2	26.4
Sector rotator	4.9	33.2	32.1
Value	3.3	30.6	31.2

Where the institutions put their money

Segment	—Portfolio weighting— most recent quarter	previous quarter
Equity	57.7%	56.3%
Fixed income	30.9	31.4
Cash and equivalents	8.0	8.8
Convertibles	0.8	0.9
Other[1]	2.6	2.6

Equity portfolio characteristics

	Institutional portfolios	Wilshire 5000
Price/earnings ratio	19.1	18.7
Dividend yield	2.7%	3.0%
Beta[2]	1.03	1.07
Price/sales	1.10	1.07
Price/book	2.71	2.53

Segment performance and cash flows

Segment	—Most recent quarter— median total return	shift in institutional holdings	—Latest 12 months— median total return	shift in institutional holdings
Equity	5.1%	0.7%	35.6%	–9.6%
Fixed income	1.4	0.5	18.7	0.5
Cash equiv	1.8	–5.7	7.9	–15.5
Convertibles	2.8	–11.6	24.3	–26.5
Other[1]	1.7	–0.9	10.4	–5.8
Total	3.7	–0.1	29.4	–9.6

Position changes: These securities had the greatest relative change in holdings over the last quarter

Security	Increase in holdings	Total quarter return	Security	Decrease in holdings	Total quarter return
Philip Morris	11.7%	28.1%	Salomon	–5.7%	–12.9%
Chevron	3.9	6.7	RJR Nabisco	–3.3	26.2
Amoco	3.9	4.2	Coca-Cola	–2.8	20.1
Bell Atlantic	1.6	13.3	IBM	–2.5	–2.6
Merck	1.4	20.5	Chrysler	–2.1	–14.4
Allied Stores	1.3	43.0	American Express	–2.0	–8.6
USG	1.3	13.3	Sperry	–1.7	48.5
K mart	1.2	28.8	General Motors	–1.4	–8.6
NWA	1.2	–5.9	General Re	–1.3	3.7
FPL Group	1.2	5.0	Burlington North	–1.1	–14.6

[1]Real estate, foreign investments, venture capital, guaranteed insurance contracts. [2]A measure of risk. A stock with a beta of 1.00 tends to move up or down at the same rate as the S&P's 500. [3]Figures for 24 months are annualized.
Note: Data for quarter ending 6/30/86. Prepared by the Trust Universe Comparison Service (TUCS®), a service of Wilshire Associates, Santa Monica, Calif.

Where the institutions are—and aren't

Most overweighted relative to Wilshire 5000			Most underweighted relative to Wilshire 5000		
	% of			% of	
Security	institutional universe	Wilshire 5000	Security	institutional universe	Wilshire 5000
Philip Morris	1.2%	0.5%	Exxon	0.5%	2.3%
Digital Equipment	0.9	0.4	IBM	2.8	4.4
American Express	0.8	0.5	AT&T	0.3	1.3
SmithKline Beckman	0.6	0.3	British Petroleum	0.0*	0.8
K mart	0.5	0.2	Amoco	0.4	1.0
General Re	0.5	0.2	Shell Trans & Trading	0.1	0.6
Ford Motor	0.7	0.5	Royal Dutch Petroleum	0.5	1.0
Syntex	0.4	0.1	Allied-Signal	0.0†	0.4
McDonald's	0.5	0.3	General Motors	0.8	1.2
Citicorp	0.5	0.3	Standard Oil Ohio	0.2	0.6

In the last quarter institutions drove down prices of energy stocks, which shrank from 10.2% to 9.5% of their stock portfolios. Six of the top ten stocks most underweighted in the institutional portfolio relative to the Wilshire index are oils. The selling, however, was selective: The "Position changes" table on the preceding page shows institutions continued to buy Amoco and Chevron.

Missing from the top institutional stocks by sector, below, are two former third-place issues. Investment bank Salomon Inc., posted the sharpest drop, 5.7%, in institutional holdings. Coca-Cola, a consumer nondurables stock, slipped 2.8% in the institutional portfolio.

Sector activity and top holdings

% of institutional portfolio: ■ most recent quarter ■ previous quarter

Capital goods	5.1% 4.9%	Consumer durables	4.7% 4.9%	Consumer nondurables	29.2% 28.2%
	total return		total return		total return
General Electric	3.9%	General Motors	–8.6%	Merck	20.5%
Caterpillar Tractor	–5.2	Ford Motor	2.0	Wal-Mart Stores	31.9
Westinghouse Electric	–1.7	Chrysler	–14.4	SmithKline Beckman	11.1
Emerson Electric	–4.3	Goodyear Tire & Rubber	–5.5	McDonald's	14.1
Deere & Co	–17.6	Whirlpool	15.7	K mart	28.8
Energy	**9.5% 10.2%**	**Finance**	**12.7% 12.9%**	**Raw materials**	**12.4% 12.4%**
	total return		total return		total return
Exxon	10.9%	American Express	–8.6%	EI du Pont de Nemours	9.9%
Royal Dutch Petroleum	16.1	Citicorp	–4.2	Dow	10.4
Mobil	14.0	General Re	3.7	Allied-Signal	–1.8
Atlantic Richfield	2.2	American Intl Group	–4.5	Waste Management	6.7
Schlumberger	9.3	Aetna Life & Casualty	–5.6	Monsanto	20.7
Technology	**15.2% 14.9%**	**Transportation**	**4.0% 3.9%**	**Utilities**	**7.2% 7.7%**
	total return		total return		total return
IBM	–2.6%	AMR	–3.7%	Pacific Telesis Group	20.7%
Digital Equipment	8.7	Norfolk Southern	–9.6	GTE	2.6
Boeing	11.1	CSX	–10.7	Southwestern Bell	20.0
ITT	16.0	Burlington Northern	–14.6	Nynex	15.8
Minnesota Mining & Mfg	9.1	UAL	–5.4	American Info Tech	15.8

*Exact figure is 0.03%. †Exact figure is 0.04%.